

# Chairman's Statement



“Modern business needs modern well-located space. British Land’s assets exemplify this maxim.”

What a difference a year makes! A year ago, real estate markets were close to all time highs, all capital markets similarly, and in the UK we were celebrating entry to the new REIT regime. Today, doom and gloom is widespread and fears of the impact of the global ‘credit crunch’ are not yet receding.

Like the proverbial curate’s egg, the true position is more complex. In British Land’s case, while clearly hit by these external forces, the position is also more reassuring. But I was prophetic in anticipating ‘more exacting market conditions’ in this letter to you a year ago.

## Results

As we detail elsewhere, on many measures British Land reported fine results for 2007/8. Underlying Earnings per share were strongly up on the back of good customer demand, high occupancy, rising rents and controlled costs. Reflecting this and our new REIT status, dividends rose 72% to 35 pence per share for the year just ended and we intend to target 37.5 pence for the current year, a further 7% increase.

However, our property values and their translation through to Net Asset Value per share fell materially as the global market turmoil re-priced most investment assets negatively. The share price reaction was even worse, anticipating a scale of asset declines not yet seen, and which may never be seen.

We overtly prepare British Land to ride out market cyclicality. While it is true that the current down-cycle has been unusually fast and severe in its effects, the principles of our business model are holding true. Prime property, strong customers, long-leases, high occupancy, strong balance sheet.

## Global Markets and the Property Industry

Many aspects of global investment markets and the underlying economic drivers are being held up to question in current turbulent times. Real estate, and the REIT model itself are being tested in three ways.

Scared investment markets, reacting to higher risk premia across all asset classes, are pushing yields on real estate assets out and prices down – the rational limits to this process are clearly there, but temporarily obfuscated by negative sentiment and investor funding constraints.

The potential feed through to the 'real economy' of financial shock raises fears of customer weakness with concomitant threat to rental growth and occupancy. This to date is more fear than reality but may become real to some extent in due course.

The liquidity and price transparency of quoted equities – i.e. the REIT format of real estate ownership – in the short run have anticipated and exaggerated market moves and fears. Share price falls have dwarfed the recorded falls in underlying asset value.

However, at British Land we feel it important to hold our nerve, not to be pushed into knee jerk response in the face of these pressures and to look through market and economic turmoil to focus on fundamentals. Real estate is one of the world's most certain and dependable asset classes. The longevity of asset life, security of cash flow and position of relative scarcity in a densely populated island like the UK are enduring characteristics that investors will return to as value certainty comes to prevail over fear and emotion.

Modern business needs modern well located space. British Land's assets exemplify this maxim. As a result our customers are strong, our leases are long and the future for the industries and locations we serve is robust, whatever the near-term cycles.

As to the REITs business model of quoted real estate ownership – it is axiomatic, as in other industries, that if public markets get values wrong by enough for long enough, private markets will offer a corrective alternative. However, if anything, current financial market shocks owe their roots to misvaluation of illiquid, unquoted and untransparent assets. The public market disciplines of transparency and liquidity are features that are likely to rise in esteem as the dust settles. In many cases investors in unquoted real estate vehicles, by contrast, are temporarily trapped, without a price at which they can choose to sell or not.

Therefore, we believe that British Land is well placed as the flagship UK REIT to provide a continuing and attractive vehicle for all types of real estate and public equity investor. While, as with other industries, the market environment sets the operating backdrop, the role of management in value-added is an indispensable counterweight. This remains the bedrock principle of our activist strategies.

## REITs

So, a year on, can we conclude that REITs are a success? Well not yet – all markets need time to prove themselves, especially when the birth coincides with 'once in a generation' financial turbulence. But what is clear is that our net asset values are higher than they would have been as a normal tax payer. Our freedom to actively manage our property portfolio without fiscal drag is enhanced and has been actively utilised over the past year. And our dividends are higher by 72%.

REITs have stood the test of time across real estate markets globally. They will too in the UK.

## Sustainability

The theme of our Annual Report's visuals this year is sustainability. Many of today's economic and even political concerns have within them the challenges of wrestling with a resource-constrained world. As an industry with resource intensive assets which will stand for many decades, sustainability is of particular relevance to the real estate business. We are proud, at British Land, to provide industry leadership in these areas. We continue to achieve a range of peer recognition, winning industry awards and, more importantly, customer support for the value of our efforts.

## The Board

The process of change in our business and industry continues to be ably supported and exemplified at Board level at British Land. During the year we bid farewell to Bob Bowden who retired after 15 years' sterling service, latterly as investment director. More tragically John Travers who had newly joined as a non-executive director passed away. We were just one of many to feel that loss. And finally David Michels, who has served as a non-executive since 2003 and latterly as Senior Independent Director, will shortly step down to fulfil increased commitments elsewhere. David has been a huge source of support and well judged advice which we shall miss. His replacement will be announced in due course.

This coming year will be challenging. It's a time for cool heads, long-term clarity, a robust business model and 'business as usual' for our management team, focused on customers and striving to outperform. British Land will endeavour to fulfil these needs.

**Chris Gibson-Smith**

Chairman  
19 May 2008